

Date: April 3, 2009

To: Interested Parties

RE: FEDERAL STIMULUS BILL EFFECTS ON CALIFORNIA'S INDUSTRIAL
DEVELOPMENT BOND (IDB) PROGRAM

Low-Cost, Tax-Exempt IDB Financing Extended to Knowledge-Based Industries

The American Recovery and Reinvestment Act of 2009 (ARRA) contains several provisions which will enhance California's IDB program, an important financing tool for local economic development statewide. Most notable is the provision that expands the federal definition of 'manufacturing facility' to include businesses that produce intangible, as well as the customary tangible, products.

Up until now, low-cost, tax-exempt IDB financing could be used to finance capital costs incurred by manufacturers which produce tangible products, i.e., personal property with physical attributes. ARRA expands the possible uses for IDB financing to include capital costs incurred by businesses which produce intangible property, i.e., patents, copyrights, formulas, processes, designs, trademarks, know-how, etc. Examples of knowledge-based businesses that may access IDB financing under the expanded definition include software developers, the biotech, pharmaceutical and nanotech companies, and the entertainment industry firms. Although the expanded definition currently is set to expire as of January 1, 2011, there are efforts underway to make it permanent. Additionally, CIDFAC staff is working to expedite an amendment to the state's Industrial Development Act that will ensure California issuers and businesses can promptly take advantage of this change in federal tax law.

Other ARRA Provisions Enhancing California's IDB Program

Other ARRA provisions which will boost California's IDB program include:

- Elimination of the ancillary facilities limitations for all IDBs issued before 2011. This means IDB proceeds may be used to finance any assets that are functionally related and subordinate to a manufacturing, research or production facility, [e.g., a warehouse] provided that such assets are located on the same site as the core facility.
- Permanent elimination of restrictions on the use of IDB proceeds to finance office space located on the same site as the core facility and deemed to be functionally related and subordinate to the core facility.
- Exemption from individual and corporate alternative minimum tax (AMT) for investors who purchase IDBs.
- Lifting certain restrictions on banks' ability to deduct interest earnings on their IDB investments.

For more information regarding California's IDB program, go to CIDFAC's website at www.treasurer.ca.gov/cidfac or contact CIDFAC at (916) 653-3843.